

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

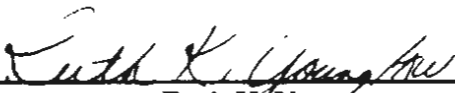
12 MONTHS ENDED DECEMBER 31, 1996

**Field Work Completed
February 14, 1997**

**POINT WATER & SEWER, INC.
Orange Park, Florida**

Docket No. 961434-WS

Audit Control Number 96-365-1-1



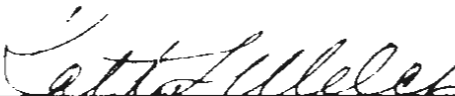
Ruth K. Young

Audit Staff

**Gabriela Leon
Raymond Grant
Robert Dodrill**

Minority Opinion

Yes ___ No *JK*
Yes ___ No *RS*
Yes ___ No *RQ*



Kathy L. Welch

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

Audit Purpose: We have applied the procedures described in Section II of this report to prepare proposed schedules of Rate Base, net Operating Income and Capital Structure for the twelve month period ending December 31, 1996 for Point Water & Sewer, Inc. for staff assisted rate case, FPSC Docket No. 961434-WS.

Scope Limitation: Point Water & Sewer, Inc. could not provide documentation to support the plant in service. An original cost study was performed by the PSC staff engineer.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: The schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1996 represent Point Water & Sewer, Inc. Books and records. The books and records were not maintained in compliance with Commission Directives. The expressed opinions extend only to the scope of work described in section II of this report.

Summary Findings:

The utility could not support plant in service. A cost study by PSC staff engineer was performed.

Because of the lack of plant records, there were no records on CIAC.

The utility did not separate water and wastewater capital items and expenses on their books.

There were expenses recorded that did not belong in the test period and there were expenses which were not recorded that belonged in the test period. Audit Exceptions detail all these items

II. AUDIT SCOPE:

The opinions contained in this report are based on the audit work described below. When used in this report, the following definitions shall apply.

COMPILED- The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency, and, except as noted, performed no other audit work.

EXAMINED - The audit staff reconciled exhibit amounts with the general ledger, traced general ledger account balances to subsidiary ledgers, applied selective analytical review procedures, tested account balances to the extent further described, and disclosed any error, irregularity, or inconsistency observed.

RATE BASE: PSC staff engineer performed an original cost study. Staff calculated accumulated depreciation based on PSC staff engineer original costs study. Calculated 1/8 of operating and maintenance expense for working capital. Determined the ownership of land, obtained deeds and estimated the cost of the land on which the system is situated.

NET OPERATING INCOME: Compiled utility revenue, operating and maintenance account balances for the 12 months ended December 31, 1996. Tested 100% of available invoices. Determined expenses paid by other parties that should be utility expenses. Tested supporting documentation for these expenses. Calculated depreciation expense based on PSC engineer cost study. Calculated regulatory assessment fees.

CAPITAL STRUCTURE: Compiled equity capital and liability accounts balances. Traced notes payable to supporting documentation.

III. AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: BOOKS AND RECORDS

STATEMENT OF FACTS: The books and records of Point Water & Sewer, Inc., were not in substantial compliance with NARUC Water and Wastewater, Class C, Accounting Instruction 2.A. and B.

The utility maintains a checkbook only. A general ledger and trial balance were created by the utility's outside accountant for our purposes. However, neither the general ledger nor the trial balance were separated into water and wastewater accounts.

Operating expenses, in many instances, were paid by related parties and the owner personally, and not recorded on the books of the utility.

OPINION: Due to the deficiencies noted above, staff made many adjustments to the trial balance created by the outside accountant which follow in the audit exceptions and disclosures.

RECOMMENDATION: The utility should be directed to maintain its book and records in compliance with NARUC.

AUDIT EXCEPTION NO. 2

SUBJECT: PLANT RECORDS NOT PROVIDED

STATEMENTS OF FACTS:

• Preservation of Records

Rule 25-30.110 1a. States that "each utility shall preserve its records in accordance with the Regulations to Govern the Preservation of Records issued by NARUC."

The NARUC Regulations to Govern the Preservation of Records states that " records related to plant shall be maintained for a minimum of 25 years unless adjustments resulting from reclassification and original cost studies have been approved by the regulatory Commission. having jurisdiction."

Rule 25-30.110 2b. states that each utility shall maintain its records at the office or offices of the utility within the state and shall keep those records open for inspection during business hours by Commission staff. The company could not provide the records supporting the construction of the water and wastewater plant. Since plant records cannot be provided, we are unable to determine the cost of the plant at the time it was first dedicated to public service.

• Cost Study

A cost study was prepared by PSC Staff engineer. He determined that the water and wastewater plant was \$108,361.90 and the land was \$20,682.72. The breakdown between water and wastewater follows:

	Water	Wastewater	Total
Plant In Service	\$ 28,978.32	\$ 79,383.58	\$108,361.90
Land	\$ 7,21.32	\$ 13,451.40	\$ 20,682.72

• Acquisition Adjustment

In 1995, IGR Inc. transferred Point Water and Wastewater plant to John Yonge and Patrick Carr in exchange for a promissory note of \$100,000. In August 1995, the plant was incorporated as Point Water and Sewer Inc. Subsequently, Point Water and Sewer Inc. recorded the plant on their general ledger at \$100,000.

OPINION:

Cost Study

Per PSC staff engineering cost study, plant in service for water and wastewater should be \$108,361.90. Land is addressed in Audit Disclosure No 1.

Acquisition Adjustment

Because the purchase prices differ from the engineering cost study calculations, an acquisition adjustment may be recognized.

Adjustment to Books

The following journal entry should be made to account for the engineering cost study:

Plant In Service	\$8,361.90	
Acquisition Adjustment		\$ 8,361.90
Balance in Water & Wastewater		
Account on Co. Books		\$100,000.00
Adjustment Above		<u>\$ 8,361.90</u>
Total Water & Wastewater Plant		\$108,361.90

The total utility plant of \$108,361.90 is allocated to water and wastewater based on PSC staff engineering cost study, \$28,978.32 to Water and \$79,383.58 to Wastewater.

AUDIT EXCEPTION NO. 3

SUBJECT: REVENUE

STATEMENT OF FACT: The Company has included revenues in the amount of \$27,370.03 in account 4000. According to the Company's tariff they are supposed to collect \$3,000 per month from the Point Property Owners Association, and \$300 a month from Whitney's Marina, it may be split 50/50 between water and wastewater.

	Monthly Amount	12 months	Water	Wastewater
Association Revenues	\$3,000	\$36,000	\$18,000	\$18,000
Marina Revenues	\$300	\$3,600	\$1,800	\$1,800
		-----	-----	-----
		\$39,600.00	\$19,800.00	\$19,800.00
Per Company's books		\$27,370.03	\$13,685.02	\$13,685.02
		-----	-----	-----
Adjustment		\$12,229.97	\$6,114.99	\$6,114.99

OPINION: Recalculated revenues for the test year using the tariff amount to \$39,600, split 50/50 between water and wastewater. The following entry should be made on the books:

	Debit	Credit
Accounts Receivable	\$12,229.97	
Revenue-Water		\$6,114.99
Revenue-Wastewater		\$6,114.99

AUDIT EXCEPTION NO. 4

SUBJECT: EXPENSES-NO DOCUMENTATION

STATEMENT OF FACT: The Company did not provide documentation for the following expenses:

Account	Amount	Description
6015	\$140.00	Contract Labor-Frank Wyn

The invoices for chemicals totaled \$6,961.00 and the amount expensed on the general ledger is \$8,517.00.

OPINION: The following journal entry needs to be made to the Company's books:

	Debit	Credit
Retained Earnings	\$140.00	
Contract Labor		\$140.00

To account for the charge for contract labor with no documentation

Retained Earnings	\$1,556.00	
Chemicals		\$1,556.00

To account for the difference between chemicals expense per invoices and the amount charged to Chemicals, \$1,556.00 (\$8,517.00-\$6,961.00). After total chemicals were adjusted staff allocated the Chemical balance between water and wastewater based on invoices and the engineer's recommendations.

Audit staff verified with staff engineer, Ted Davis, that the chemical invoices found support the chemical usage according to the DEP reports. Therefore, the general ledger is overstated.

AUDIT EXCEPTION NO. 5

SUBJECT: OFFICE EXPENSES AND SUPPLIES

STATEMENT OF FACT: The Company did not provide documentation for a charge of \$50.00 from Kline Litte charged to Office Expenses and Supplies. A charge of \$37.58 for maintenance expenses from Fergusons for 6" PVC pipes was also expensed in this account.

The Company provided a sales ticket in the amount of \$126.85 from Office Depot for office supplies which were not recorded on the general ledger.

OPINION:

(1) The \$37.58 should be removed from Office Expenses and Supplies and charged to Repairs and Maintenance	(37.58)
(2) The \$50.00 with no documentation should also be removed	(\$50.00)
(3) \$126.85 should be included in Office Expenses & Supplies for expenses not recorded	\$126.85

Adjustment	\$39.57

The following entry should be made on the company's books:

	Debit	Credit
Office Supplies & Expenses	\$39.57	
Accounts Payable		\$39.57

This account was split 50/50 between water and wastewater.

AUDIT EXCEPTION NO. 6

SUBJECT: REPAIRS AND MAINTENANCE EXPENSES

STATEMENT OF FACT: A charge for 6" PVC pipes for \$37.58 was expensed to Office Expenses and Supplies. This charge was for maintenance expense.

OPINION: The Repairs and Maintenance Expenses should be increased by \$37.58. The following entry should be made on the company's books:

	Debit	Credit
Repairs and Maintenance	\$37.58	
Office Expenses and Supplies		\$37.58

AUDIT EXCEPTION NO. 7

SUBJECT: SERVICE TECHNICIAN SERVICES

STATEMENT OF FACT: The company has recorded \$6,000.00 for services related to operating fees from Coastal Utility to an account called Service Technician. Per the invoices monthly operating fees are \$550.00.

	Monthly Fee	12 Months
Invoices from Coastal Utility	\$550.00	\$6,600.00
Per company's books		\$6,000.00
Adjustment		----- \$600.00

OPINION: Contract Service-Service Technician account should be increased by \$600.00 to account for 12 months of service.

The following entry should be made on the company's books:

	Debit	Credit
Contract Service- Service Technician		\$600.00
Accounts Payable		\$600.00

According to staff engineer, Ted Davis, this monthly operating fee of \$550.00 seems to be the norm for a utility this size. The fee from the service technician was split 50/50 between water and wastewater.

AUDIT EXCEPTION NO. 8

SUBJECT: TAXES AND LICENSES EXPENSES

STATEMENT OF FACT: The company recorded a fee to obtain a wastewater permit from the DEP in the amount of \$1,000 to Taxes and Licenses. Engineering fees for \$1,850.00 for obtaining the permit were not recorded on the general ledger.

OPINION: According to the staff engineer, Ted Davis, the DEP permit is applied for every 5 years, therefore, expenses related to obtaining the permit should be amortized over this period.

The following entries should be recorded:

	Debit	Credit
Deferred Debits	\$800.00	
Taxes and Licenses		\$800.00

To account for the unamortized portion of the Wastewater \$1,000 permit.

Contract Services-Engineering	\$370.00	
Deferred Debits	\$1,480.00	
Accounts Payable		\$1,850.00

To charge 1/5 of engineering expense associated with the permit to Contract Services-Engineering and to defer the rest.

AUDIT EXCEPTION NO. 9

SUBJECT: PROFESSIONAL FEES

STATEMENT OF FACT: The company has included two invoices from Cox and Reynolds one from November 1996, and another from December 1996 in the amount of \$4,802.50, and \$3,239.00 respectively for a total of \$8,041.50.

According to the staff engineer the company's applies for the DEP permit every 5 years. Per order 13317, Rate Case Expenses should be amortized over 4 years.

OPINION: The invoices related to the legal fees for the staff assisted rate case are \$6,594.24; and \$1,447.26 for acquiring the DEP permit.

The following entry should be made on the Company's books.

Deferred Debit-(DEP Permit Expense)	\$1,157.81	
Contract Services-Legal	\$ 289.45	
Rate Case Expense	\$1,648.56	
Deferred Rate Case Expense	\$4,945.68	
Professional Fees		\$8,041.50

This entry amortizes legal fees for the staff assisted rate case over 4 years, and the fees for the DEP permit over 5 years. The Deferred Rate Case Expense account is charged for 3/4 of the rate case expense and the Deferred Debit account is charged 4/5 of the legal fees related to the DEP permit.

AUDIT EXCEPTION NO. 10

SUBJECT: DEPRECIATION EXPENSE

STATEMENT OF FACT: Depreciation expense per the general ledger totals \$5,000.00 as of 12/31/96.

OPINION: Staff recalculated depreciation expense and accumulated depreciation using the cost study prepared by staff engineer, Ted Davis, and using the rates per Rule #25-30.140.

Depreciation Expense-1996 per staff's calculation-Water	\$1,413.97
Depreciation Expense-1996 per staff's calculation-Wastewater	\$4,460.63

	\$5,874.60
Depreciation Expense per books:	\$5,000.00

Adjustment	\$874.60
Accumulated Depreciation per staff (Average)-Water	\$22,623.55
Accumulated Depreciation per staff(Average)-Wastewater	\$70,328.35

	\$92,951.90
Per Company's books	\$3,333.33

	\$89,618.57

The following entry should be made to the Rate Base Schedule:

	Debit	
Depreciation Expense	\$874.60	
Acquisition Adjustment	\$88,743.96	
Accumulated Depreciation		\$89,618.57

The books should be adjusted as follows:

Depreciation Expense	\$874.60	
Acquisition Adjustment	\$89,181.27	
Accumulated Depreciation		\$90,055.87

DEPRECIATION SCHEDULE

Acct	Description	Amount	Rate Per Rule	1980 1/2 year DEP	1980 12/31/80 depreciation	Accumulated Depr @ 1986	depreciation 1986	Accumulated Depreciation @ 12/31/86	Average Accum Dep
304	Structures and Improvements	\$91.56	3.5714%	\$1.64	\$49.08	\$50.70	\$3.27	\$53.97	\$52.33
307	Well (4" casing)	\$5,151.80	3.7037%	\$95.40	\$2,862.00	\$2,957.40	\$180.80	\$3,138.20	\$3,052.80
309	Supply Mains (2" G8)	\$222.08	3.1250%	\$3.47	\$104.10	\$107.57	\$8.84	\$116.41	\$111.05
311	Pumping Equip	\$384.88	5.8534%	\$11.82	\$348.48	\$360.11	\$23.23	\$383.34	\$371.73
320	Treatment Equip	\$17,744.60	5.8534%	\$527.88	\$15,856.82	\$16,179.72	\$1,043.79	\$17,223.51	\$16,700.81
331	Transmission & Distribution Mains (4")	\$2,117.88	2.8316%	\$27.87	\$636.04	\$663.91	\$58.74	\$722.65	\$691.78
331	Transmission & Distribution Mains (2")	\$257.58	2.8316%	\$3.39	\$101.68	\$105.07	\$8.78	\$113.85	\$108.45
331	Distribution Mains (4")	\$848.30	2.8316%	\$11.18	\$334.88	\$346.02	\$22.32	\$368.34	\$357.16
331	Distribution Mains (2")	\$144.24	2.8316%	\$1.80	\$58.84	\$60.63	\$3.80	\$64.43	\$60.73
333	Services	\$2,005.88	2.8571%	\$28.65	\$558.58	\$588.23	\$57.31	\$645.54	\$616.89
	Water	<u>\$28,978.42</u>				<u>\$21,918.56</u>	<u>\$1,413.97</u>	<u>\$23,332.53</u>	<u>\$22,623.55</u>

354	Structures and Improvements-Fence	\$2,747.52	3.7037%	\$50.88	\$1,526.40	\$1,577.28	\$101.78	\$1,679.06	\$1,628.16
360	Collection Sewer- (PM-C)	\$583.85	3.7037%	\$10.81	\$324.38	\$335.17	\$21.82	\$356.99	\$345.99
361	Col Sewer (Grav 6" VCP)	\$6,412.88	2.5000%	\$80.16	\$2,404.83	\$2,484.99	\$180.32	\$2,665.31	\$2,585.15
361	Collect Sewer -68-1	\$1,305.07	3.7037%	\$24.17	\$725.04	\$749.21	\$48.34	\$797.55	\$773.37
363	Services	\$3,267.02	2.8571%	\$47.10	\$1,413.01	\$1,480.11	\$84.20	\$1,564.31	\$1,507.21
370	Rearly Wells Master LS	\$7,788.09	4.0000%	\$186.82	\$4,877.86	\$4,833.58	\$311.84	\$5,145.42	\$4,989.50
380	T & D Equipment Package Plant	\$53,233.20	4.8867%	\$1,774.44	\$53,233.20	\$55,007.64	\$3,846.88	\$58,854.52	\$54,782.08
382	Outfall Sewer	\$2,805.80	3.3333%	\$46.77	\$1,402.65	\$1,448.72	\$53.53	\$1,502.25	\$1,458.46
	Wastewater	<u>\$78,181.52</u>				<u>\$67,887.88</u>	<u>\$4,380.80</u>	<u>\$72,268.68</u>	<u>\$70,087.94</u>

			1983 1/2 yr. dep	1984- 1986 Accum depreciation	Accum Dep 1986	depreciation 1986	Accumulated Depreciation	Average Accum. Dep	
380	T & D Dechlor Uni-Wastewater	\$1,202.04	6.6667%	\$40.07	\$180.27	\$200.34	\$80.14	\$280.48	\$240.41
	Total Wastewater						<u>\$4,460.83</u>	<u>\$72,558.86</u>	<u>\$70,328.35</u>

Depreciation Expense 1986

Water	\$1,413.97
Wastewater	<u>\$4,460.83</u>
Per Books	<u>\$5,000.00</u>
Adjustment	<u>\$874.80</u>

Accumulated Depreciation 1986	Year end	Average
Water	\$23,330.54	\$22,623.55
Wastewater	<u>\$72,558.86</u>	<u>\$70,328.35</u>
	<u>\$95,889.20</u>	<u>\$92,951.90</u>
Per Books	<u>\$5,833.33</u>	<u>\$3,333.33</u>
	<u>\$90,055.87</u>	<u>\$89,618.57</u>

Journal Entries

	DEBIT	CREDIT
Depreciation Expense	\$874.80	
Acquisition Adjustment	\$88,181.27	
Accumulated Depreciation		\$90,055.87

To account for the correct depreciation expense according to the Rule # 25-30 140, at year end

Depreciation Expense	\$874.80	
Acquisition Adjustment	\$88,743.88	
Accumulated Depreciation		\$89,618.57

To account for the correct depreciation expense according to the Rule # 25-30 140, for the average accum. dep

DEPRECIATION SCHEDULE

Acct	Description	Amount	Rate Per Rule	1980 1/2 year DEP.	1980- 1985 12/31/85 depreciation	Accumulated Depn @ 1985	depreciation 1986	Accumulated Depreciation @ 12/31/86	Average Accum. Dep.
304	Structures and Improvements	\$91.58	3.5714%	\$1.84	\$49.08	\$50.70	\$3.27	\$53.97	\$52.33
307	Well (4" casing)	\$5,151.80	3.7037%	\$95.40	\$2,882.00	\$2,957.40	\$180.80	\$3,148.20	\$3,082.80
309	Supply Mains (2" G8)	\$222.09	3.1250%	\$3.47	\$104.10	\$107.57	\$8.94	\$114.52	\$111.06
311	Pumping Equip	\$394.88	5.8824%	\$11.82	\$348.49	\$360.11	\$71.23	\$383.34	\$371.73
320	Treatment Equip	\$17,744.40	5.8824%	\$521.89	\$15,856.82	\$16,178.72	\$1,043.79	\$17,222.51	\$16,700.61
331	Transmission & Distribution Mains (4")	\$2,117.98	2.8316%	\$27.87	\$638.04	\$683.91	\$55.74	\$819.85	\$801.78
331	Transmission & Distribution Mains (2")	\$257.58	2.8316%	\$3.39	\$101.88	\$105.07	\$8.78	\$111.84	\$108.45
331	Distribution Mains (4")	\$848.30	2.8316%	\$11.18	\$334.88	\$348.82	\$22.32	\$388.34	\$367.18
331	Distribution Mains (2")	\$144.24	2.8316%	\$1.80	\$58.84	\$61.83	\$3.80	\$82.63	\$80.73
333	Services	\$2,005.89	2.8571%	\$28.85	\$859.58	\$888.23	\$57.31	\$945.54	\$918.89
	Water	<u>\$28,978.42</u>				<u>\$21,818.86</u>	<u>\$1,413.97</u>	<u>\$23,330.54</u>	<u>\$22,623.95</u>

354	Structures and Improvements-Fence	\$2,747.52	3.7037%	\$50.88	\$1,528.40	\$1,577.28	\$101.78	\$1,679.04	\$1,628.16
360	Collection Sewer- (P16-C)	\$583.85	3.7037%	\$10.81	\$324.38	\$335.17	\$21.82	\$356.80	\$345.89
361	Col Sewer (Grav 8" VCP)	\$8,412.88	2.5000%	\$80.16	\$2,404.83	\$2,484.99	\$180.32	\$2,665.31	\$2,585.15
361	Collect Sewer -48H	\$1,305.07	3.7037%	\$24.17	\$725.04	\$749.21	\$48.34	\$797.54	\$773.37
363	Services	\$3,267.02	2.8571%	\$47.10	\$1,413.01	\$1,480.11	\$94.20	\$1,584.31	\$1,507.21
370	Res'r'y Wells Master LS	\$7,798.09	4.0000%	\$185.82	\$4,877.85	\$4,833.58	\$311.84	\$8,145.42	\$4,888.90
380	T & D Equipment Package Plant	\$63,233.20	6.8887%	\$1,774.44	\$63,233.20	\$65,007.64	\$3,548.88	\$68,556.52	\$66,782.08
382	Outfall Sewer	<u>\$2,805.90</u>	3.3333%	\$48.77	\$1,402.85	\$1,449.72	\$93.53	\$1,543.25	\$1,488.48
	Wastewater	<u>\$78,181.53</u>				<u>\$67,897.88</u>	<u>\$4,380.90</u>	<u>\$72,278.18</u>	<u>\$70,087.84</u>

			1983 1/2 yr dep	1984-1985	Accum. Dep 1985	depreciation 1986	Accumulated Depreciation	Average Accum. Dep	
380	T & D Dechlor Uni-Wastewater	\$1,202.04	6.8887%	\$40.07	\$180.27	\$200.34	\$80.14	\$280.48	\$280.41
	Total Wastewater						<u>\$4,460.83</u>	<u>\$72,558.98</u>	<u>\$70,328.25</u>

Depreciation Expense 1986

Water	\$1,413.97
Wastewater	<u>\$4,460.83</u>
	\$5,874.80
Per Books	<u>\$5,000.00</u>
Adjustment	<u>\$874.80</u>

Accumulated Depreciation 1986

	Year end	Average
Water	\$23,330.54	\$22,623.95
Wastewater	<u>\$72,558.98</u>	<u>\$70,328.35</u>
	\$95,889.20	\$92,951.90
Per Books	<u>\$6,833.33</u>	<u>\$3,333.33</u>
	<u>\$90,056.87</u>	<u>\$80,618.57</u>

Journal Entries

	DEBIT	CREDIT
Depreciation Expense	\$874.80	
Acquisition Adjustment	\$88,181.27	
Accumulated Depreciation		\$90,056.87

To account for the correct depreciation expense according to the Rule # 26-30 140, at year end

Depreciation Expense	\$874.80	
Acquisition Adjustment	\$88,743.88	
Accumulated Depreciation		\$91,618.67

To account for the correct depreciation expense according to the Rule # 26-30 140, for the average accum. dep.

AUDIT EXCEPTION NO. 11

SUBJECT: LEGAL FEES NOT RECORDED

STATEMENT OF FACT: The Company incurred legal fees related to the staff assisted rate case and the DEP permit in the amount of \$6,354.04 which were not recorded on their books. The FPSC application charge of \$400.00 was also not recorded.

The \$6,354.04 was split between SARC fees and DEP permit fees as follows:

SARC fees	\$6,102.32
DEP permit	\$251.72

OPINION: The company should make the following entry to account for legal fees not recorded.

	Debit	Credit
Rate Case Exp (1/4)	\$1,625.58	
Deferred Rate Case Exp (3/4)	\$4,876.74	
Contract Services-Legal (1/5)	\$50.34	
Deferred Debit Permit (4/5)	\$201.38	
Accounts Payable		\$6,754.04

These fees are in addition to the rate case expenses included in exception 9. Total legal fees related to the rate case for these two exceptions are \$12,696.56. Costs were allocated 50/50 between water and wastewater.

AUDIT EXCEPTION NO. 12

SUBJECT: ADDITIONAL TAXES AND LICENSES

STATEMENT OF FACT: The Company did not include the following expenses on their records in the test year ending 12/31/96:

Regulatory Assessment Fees	\$1,782.00
Personal Property Taxes	\$1,293.34

According to the Company's contact, Emma Pfister, the Regulatory Assessments Fees will be paid in March 1997. Personal property taxes were paid but never recorded.

OPINION: The following entry should be made on the Company's books:

	Debit	Credit
Regulatory Assessment Fees	\$1,782.00	
Personal Property Taxes	\$1,293.34	
Accounts Payable		\$3,075.34

These regulatory assessment fees were allocated 50/50 between water and wastewater, and the personal property taxes were allocated based on the plant engineering study.

IV. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: LAND

STATEMENTS OF FACTS: The PSC staff engineer determined the cost of land in his original cost study to be \$7,231.31 for the water plant and \$13,451.40 for the wastewater plant based on current value.

The water and wastewater system are built on three parcels of land.

- Parcel A is owned by IGR Inc and includes ½ of the wastewater treatment plant.
- Parcel B is owned by Point Property Owners Association and includes the water plant.
- Parcel C is owned by James and Phillip Yonge, and is leased to Whitney sail center for 99 years. Parcel C, includes ½ of the wastewater treatment plant and the well for the water plant.

Whitney Sail Center granted an exclusive easement to PDY Inc. and James Yonge to allow the construction of a sewer treatment plant, lift station and all piping, plumbing and electrical service. In exchange or granting the easement, James Yonge allowed Whitney to tie in all of its' wastewater discharge and sewage effluent into the sewer plant without assessing any fee or tap in charge, provided, Whitney pays all actual costs of running lines from its facilities to the sewer plant and pays a standard charge for using the sewer treatment plant.

On June 4, 1981, Whitney Sail Center granted an easement to James Yonge to use water from the well located on the property and to run and maintain a water line from the well to the water treatment plant. In exchange or granting the easement, James Yonge allowed Whitney to tie in all of its' water lines into the water treatment plant without assessing any fee or tap in charge, provided, Whitney pays all actual costs of running lines from its facilities to the water plant and pay a standard charge for using the water treatment plant.

The land on which the water system stands belongs 100% to the Point Property Owner's Association. It is subject to an easement for the utility that lasts forever This easement is in favor of Point Water and Sewer Inc.

The utility does not own any land nor does the utility have a 99-year lease on the land on which the water and wastewater plants are built.

Order No. 13796, Docket No. 830558-WS, issued 10/22/84, states when the utility plant is located on land which is not owned by the utility, a 99-year lease or longer is required to guarantee the continued use of the land by the Utility, and to preserve continuous service to the customers.

OPINION: The water plant uses approximately 1/4 of a lot and the wastewater treatment plant 1/3 of a lot based on the engineers observation. The three parcels of land were part of a purchase in 1975 by Phillip Yonge, a related party to the current owner. The original cost of 34 lots was \$45,000 according to the doc stamps on the deed. This would amount to \$1,324 per lot. Therefore, if the land was properly transferred to the utility at original cost the water land would be worth \$331.00, and the wastewater \$441.33.

The current deeds for the land are not in the utilities name and no lease has been executed. A lease with Whitney Sail Center appears to satisfy PSC requirements. However, this lease only covers 1/2 of the wastewater treatment plant and the well.

RECOMMENDATION:

The utility should be required to enter into a 99-year lease for the property on which the systems are built. The Commission should decide the price of the land, contingent upon execution of the 99-year lease.

AUDIT DISCLOSURE NO. 2

SUBJECT: RATE CASE EXPENSES

STATEMENT OF FACT: According to the Company's accountant, Emma Pfister, the billing for her services to Point Water and Sewer Inc. related to the staff assisted rate case audit is \$4,000. This does not include any time for February 1997. The estimated total to be billed through the conclusion of the audit will be around \$9,000. Staff has not made any adjustment to include these costs in the attached schedules.

OPINION: Since the company did not maintain proper records there was more time involved in the gathering and recreating of records than the normal time spent on the staff assisted rate case.

AUDIT DISCLOSURE NO. 3

SUBJECT: CIAC

STATEMENTS OF FACTS: The company could not provide records supporting the construction of the water and wastewater plant. Also, there were no records indicating the Contribution in Aid of Construction. (CIAC).

In 1980 when the utility plant was constructed, the plant was owned by six different corporations, NOH Inc, IGR Inc., NGF Inc., NLM Inc., CNK Inc., and QNK Inc. These corporations were merged in IGR Inc., and James Yonge was the primary shareholder.

Staff reviewed the tax returns for 1983 for NOH Inc. and IGR Inc. The 1983 tax returns were the only returns available to us. There was no plant, accumulated depreciation or land recorded on the balance sheet of either return. Staff also reviewed a copy of one of the original town home sales agreement and there was no mention of hook-up or connection fees.

In FPSC Order No. 11604, Docket No. 810130-WS, issued 2-11-83, CIAC was imputed as the difference between the amount of plant carried on the utility's books and the amount depreciated for federal income tax purposes.

In FPSC Order No. 11263, Docket No. 820120-W, issued 10-25-82, when the original cost records cannot be obtained from the utility, Contribution in Aid of Construction (CIAC) was imputed as 75% of the estimated value of utility plant placed in service.

On February 27, 1988, a written agreement was executed whereby James Yonge of IGR Inc. turned over the utility plant to the Point Property Owners Association (PPOA). The PPOA was then assigned the responsibility and rights to provide water and wastewater services for all users. The agreement stated that "the owners of the respective Units through the association shall pay for such water and sewer service. The amount paid shall be equivalent of all of the operating, supply, maintenance utility testing, analysis, replacements, modifications and regulatory costs necessary for the proper and efficient operation of the water and sewer plants in compliance with all federal, state and local regulations."

In 1992, during the time PPOA was operating the plant, the plant was cited for violating federal environmental laws with regard to the discharge of chlorine into the St Johns River. The EPA subsequently filed an action to access a penalty. As a result of the violation, and the increasing cost of operating the plant, the PPOA called James Yonge and informed him

they were giving the plant back.

In August 1995, the plant was incorporated as Point Water and Sewer Inc., and in September 1995, IGR Inc. transferred the plant to John Yonge and Patrick Carr in exchange for a promissory note of \$100,000.

OPINION: Lack of plant in service on the tax returns could mean that the utility wrote off the plant in service as cost of goods sold and that plant is 100% contributed. This is supported by the February 27, 1988 agreement which requires the Association to pay for only maintenance and expense items and no return on investment.

AUDIT DISCLOSURE NO. 4

SUBJECT: PROPERTY INSURANCE

STATEMENT OF FACT: The Point Property Owners Association pays for a policy for the water and wastewater plant for coverage in the amount of \$35,000. The company representative stated that they were in the process of obtaining a policy for the difference between the \$35,000 and the \$100,000 which they paid for the utility.

OPINION: Staff was unable to obtain documentation for the cost of the insurance, therefore, no property insurance has been included in the staff assisted rate case. It may not be reasonable to insure the plant for \$100,000 because the company has not considered original cost less depreciation in its valuation of plant. The \$35,000 might be a more realistic estimate of its value.

AUDIT DISCLOSURE NO. 5

SUBJECT: UNRECORDED EXPENSES

STATEMENT OF FACT: The company is requesting a proforma adjustment for expenses they have not yet incurred.

General Liability Insurance	\$13,571.25
Rent	\$ 3,852.00
Phone Services	\$ 660.00

Staff verified the general liability insurance proposal by calling the insurance agent. A rent proposal was provided to staff which shows the monthly rent and the monthly phone charges.

OPINION: Staff has not included any of these expenses in the attached schedule of adjustments. Property insurance is discussed in audit disclosure 2. Staff questions the need for an office when a company only has only 2 billable customers and no employees. A service company maintains the plant. General liability insurance seem high considering the size of the company.

AUDIT DISCLOSURE NO. 6

SUBJECT: EFFLUENT LINE REPAIR

STATEMENT OF FACT: The company paid a bill from John Yonge, who is the majority stockholder, related to an effluent line repair in the amount of \$1,385.21. In turn the company billed the association for reimbursement, directly. According to the invoice and conversations with the company contact, Emma Pfister, two men performed this work. This expense was never charged to the books. A \$400.00 expense also from John Yonge was charged to Repairs and Maintenance that related to this repair.

OPINION: Because this may not be the type of expense that occurs yearly, the possibility exists that this amount, \$1,785.21(\$1,385.21 + \$400.00), should be an amortized expense because it may not be recurring. Additional scrutiny needs to be made of these costs because they were paid to a stockholder. Therefore, staff has asked the engineer to review these costs for reasonableness.

AUDIT DISCLOSURE NO. 7

SUBJECT: PROFESSIONAL FEES

STATEMENT OF FACT: The Company has included in account "6050 Professional Fees" the following invoices for legal fees:

11/1/96	\$4,165.00
12/1/96	\$5,009.84
12/1/96	\$ 675.00

	\$9,849.84

These fees relate to the dispute between Point Water and Sewer Inc. and the Point Property Owners Association pertaining to a penalty fee imposed by the EPA at the time that the Association was managing the plant.

OPINION: According to the NARUC Chart of Accounts penalties or fines for violations of statutes relating to regulation are considered Miscellaneous Non-utility Expenses. Since these legal fees relate to a dispute as to who should pay for the penalty fee, the costs associated may also be more appropriately recorded as below the line.

AUDIT DISCLOSURE NO. 8

SUBJECT: MANAGEMENT FEE

STATEMENT OF FACT: The company pays the owner, John Yonge, a management fee of \$9,600 a year. A statement of his duties is attached. It shows that he works 2.5 hours a day. In addition to this management fee he has billed the company twice in the test year for maintenance work.

OPINION: Using 2.5 hours times 52 weeks divided by \$9,600 the hourly rate amounts to \$74.00 an hour.

POINT WATER SEWER, INC.
4753 Raggedy Point Road
Orange Park, FL 32073

Re: Daily Plant Requirements

To: Gaby Leon

- * 1 Hour a day paperwork
 - Filing appropriate forms
 - write correspondence, such as this
 - fax items
- * 1 Hour to read mail and respond
- * .50 Hour daily to drive by the plant, either early in the morning or evening.

The items discussed are conservative but I believe add up to the average time I spend during the week.

There are days when 12 hours is not enough time to do the necessary paper work.

This statement is true and accurate to the best of my knowledge.

Respectfully,


John S. Yonge

V. STAFF EXHIBITS

SCHEDULE OF RATE BASE

	Per Books 12/31/95	Per Books 12/31/96	Average	Adjustment Number	Audit Adjustment	Per Audit Balance	Staff Adjusted Water	Balance Wastewater
UTILITY PLANT IN SERVICE	\$100,000.00	\$100,000.00	\$100,000.00	12	\$8,361.90	\$108,361.90	\$28,978.00	\$79,383.00
ACCUMULATED DEPRECIATION	(\$833.33)	(\$5,833.33)	(\$3,333.33)	11	(\$89,618.57)	(\$92,951.90)	(\$22,623.55)	(\$70,328.38)
WORKING CAPITAL						\$4,785.93	\$2,054.13	\$2,731.80
	<u>\$99,166.67</u>	<u>\$94,166.67</u>	<u>\$98,666.67</u>		<u>(\$76,470.74)</u>	<u>\$20,195.93</u>	<u>\$8,408.58</u>	<u>\$11,786.35</u>

Working Capital is calculated by taking
1/8 of Operating and Maintenance Expenses.
See schedule of Net Operating Income.

Adjustment 11

This adjustment was made to record the correct plant balance per the staff engineer's cost study and to charge acquisition adjustment because the purchase price differ from the engineer's cost study calculations.

Adjustment 12

To account for the correct depreciation expense per Rule 25-20.140 for average accumulated depreciation of \$89,618.57.

NOTE: Land and CIAC were not included in this schedule pending review by the Commission.

NET OPERATING INCOME
12/31/88

	Unadjusted Balance Per General Ledger	Company Adjustments	Company Adjusted Balance		Staff Adjustments	Balance	Balance Water	Balance Wastewater
4000 Water and Sewer Fees	(827,370.00)		(827,370.00)	(1)	(812,229.97)	(839,600.00)	(819,800.00)	(819,800.00)
OPERATING EXPENSES: -								
5025 Service Technicians	98,000.00		98,000.00	(5)	9800.00	98,800.00	83,300.00	83,300.00
5030 Chemicals, Testing & Main	98,617.00		98,617.00	(8)	(51,888.00)	88,891.00	81,807.80	88,483.80
6000 Management Fees	811,820.00 A/E 1	(82,020.00)	98,800.00		80.00	98,800.00	84,800.00	84,800.00
6015 Contract Labor	8140.00		8140.00	(2)	(8140.00)	80.00	80.00	80.00
6035 Office Expenses & Supplies	8385.17		8385.17	(3),(4)	81.89	8387.16	8183.88	8183.88
6042 Repairs and Maintenance	8887.11		8887.11	(4)	837.88	8924.99	879.88	8948.15
6050 Professional Fees	88,823.84 A/E 3	88,888.35	817,882.19	(8)	(88,041.80)	88,889.89	84,828.35	84,828.35
6880 Rate Case Expense - Legal	80.00	80.00	80.00	(8),(8)	83,274.14	83,274.14	81,837.87	81,837.87
Contract Services-Engineering	80.00		80.00	(7), (8), (8)	8788.79	8788.79		8788.79
Total Operating and Maintenance Expenses	888,483.12		843,401.47		(88,114.00)	838,287.47	818,433.88	821,884.44
6025 Taxes and Licenses	82,800.00		82,800.00	(7)	(8800.00)	82,800.00	8780.30	81,280.00
Personal Property Tax			80.00	(10)	81,288.34	81,288.34	8348.20	8944.14
6045 Depreciation Expense		A/E 2 88,000.00	88,000.00	(11)	8874.80	88,874.80	81,413.97	84,888.88
6881 Regulatory Assessment Fees	80.00	80.00	80.00	(10)	81,782.00	81,782.00	8881.00	8881.00
Total Expenses	888,283.12		881,201.47		(81,884.08)	848,227.41	818,837.22	828,400.21
Net Income/Loss	811,883.88					88,837.41	837.21	88,800.20

Calculation of Working Capital

	Water	Wastewater
Operating and Maintenance times 1/8	\$18,433.05	\$21,884.44
Working Capital	\$2,084.13	\$2,731.80

COST OF CAPITAL SCHEDULE AT
YEAR END

	PER BOOKS DATE	Audit Adjustment	Adjusted Balance Per Books	Commission Adjustments	Balance Per Audit	Ratio	Cost Rate	Weighted Cost of Capital
RETAINED EARNINGS	\$6,766.72	\$1,696.00	\$8,462.72	(\$8,462.72)	\$0.00	0.00%	0.00%	0.00%
COMMON STOCK	(\$500.00)	\$0.00	(\$500.00)	\$500.00	\$0.00			
LONG-TERM DEBT	(\$100,000.00)		(\$100,000.00)		(\$100,000.00)	88.46%	9.50%	8.40%
SHORT TERM DEBT	(\$21,008.18)		(\$21,008.18)		(\$21,008.18)	18.58%	6.31%	1.17%
TOTAL	<u>(\$114,741.46)</u>	<u>\$1,696.00</u>	<u>(\$113,045.46)</u>	<u>(\$7,962.72)</u>	<u>(\$121,008.18)</u>	<u>107.04%</u>		<u>9.58%</u>

1 The cost of capital is based on utility debt.

2 In PSC Order 93-0930WS, the Commission said that it is their "practice to adjust negative common equity to zero

Retained Earnings	\$8,462.72
Common Stock	(\$500.00)
	<hr/>
Common Equity	\$7,962.72

3 The following adjustment was made to retained earnings by staff auditor on workpaper 13
Audit Adjustment

Adjustment No. 2	\$140.00
Adjustment No. 6	\$1,556.00
	<hr/>
Total Adjustment	<u>\$1,696.00</u>

STAFF ADJUSTMENTS

ADJUSTMENT NO. 1

	DEBIT	CREDIT
Accounts Receivable	\$12,229.98	
Revenue Water		\$6,114.99
Revenue Wastewater		\$6,114.99

To adjust revenues to agree with the Company's tariff.
See Audit Exception 3.

ADJUSTMENT NO. 2

Retained Earnings	\$140.00	
Contract Labor		\$140.00

There is no documentation for this charge and the Company says that this is a one time charge and will not occur again.
See Audit Exception 4.

ADJUSTMENT NO. 3

Office Supplies and Expenses	\$39.57	
Accounts Payable		\$39.57

To remove items that are not documented and include items that were not charged to the general ledger.
The adjusted balance is split 50/50 between water and wastewater.
See audit exception 5.

ADJUSTMENT NO. 4

Repairs and Maintenance	\$37.58	
Office expenses and supplies		\$37.58

To include an item incorrectly charged to account 6035 that should have been charged to account 6042 in the amount of \$37.58 from Ferguson for PVC pipes.
Staff adjusted balance is split between water and wastewater based on conversation per staff engineer, Ted Davis.
See audit exception 6.

ADJUSTMENT NO. 5

Contract Services-Service Technician	\$600.00	
Accounts Payable		\$600.00

To adjust for 12 months of service from Coastal Utility.
The staff adjusted balance is split 50/50 based on recommendation per staff engineer.
See audit exception 7.

ADJUSTMENT NO. 6

Retained Earnings	\$1,556.00	
Chemicals		\$1,556.00

To account for only those expenses which there is documentation.
See audit exception 4.

ADJUSTMENT NO. 7

Deferred Debits	\$800.00	
Taxes and licenses		\$800.00

To account for the unamortized portion of the Wastewater \$1,000 permit.

Contract Services-Engineering	\$370.00	
Deferred Debits	\$1,480.00	
Accounts Payable (\$370+\$1,480)		\$1,850.00

To charge 1/5 of engineering expenses associated with the permit to contract services and to defer the rest.

Per the staff engineer, Ted Davis, this permit is applied for every 5 years, therefore, staff used this period for the amortization expense. The balance in the account is wastewater only.
See audit exception no. 8.

ADJUSTMENT 8

Deferred Debits-Permit Exp	\$1,157.81	
Deferred Debits-Rate Case (3/4)	\$4,945.68	
Rate Case Exp. (1/4)	\$1,648.56	
Contract Services-Engineering (1/5)	\$289.45	
Professional Fees		\$8,041.50

To remove from professional fees charges related to the SARC and to Contract Services-Engineering.
To account for 1/4 of SARC expenses and 1/5 of Contractural Services-Engineering.
Balance in the account is wastewater only.
See audit exception 9.

ADJUSTMENT 9

Rate Case Exp Legal (1/4)	\$1,625.58	
Deferred Rate Case Exp (3/4)	\$4,876.74	
Contract Services-Engineering (1/5)	\$50.34	
Deferred Permit Exp (4/5)	\$201.38	
Accounts Payable		\$6,754.04

To account for additional legal fees related to the SARC(staff assisted rate case) and DEP permit not recorded by the company.

To account for 1/4 of the SARC expense and 1/5 of DEP permit exp.

The rate case exp. is split 50/50 between water and wastewater, and the DEP permit is wastewater only.

See audit exception 11.

ADJUSTMENT 10

Regulatory Assessment Fee	\$1,782.00	
Personal Property Tax	\$1,293.34	
Accounts Payable		\$3,075.34

To include in rates expenses not recorded by the company.

Split 50/50 between water and wastewater.

See audit exception #12.

ADJUSTMENT 11

Depreciation Expense	\$874.60	
Acquisition Adjustment	\$88,743.96	
Accumulated Depreciation		\$89,618.57

To account for the correct depreciation expense according to the Rule 25-20.140 for average accumulated depreciation.

Depreciation Expense	\$874.60	
Acquisition Adjustment	\$89,181.27	
Accumulated Depreciation		\$90,055.87

Split between water and wastewater based on staff's calculation.

See audit exception 10.

ADJUSTMENT 12

Plant in Service	\$8,361.90	
Acquisition Adjustment		\$8,361.90

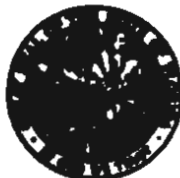
To account for Plant in Service according to the engineer's cost study, and to increase Plant for the difference between the cost study and the general ledger.

See audit exception 2.

State of Florida

Commissioners:

SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

March 11, 1997

Mr. John S. Yonge
Point Water and Sewer, Inc.
4753 Raggedy Point Road
Orange Park, Florida 32073-7845

RE: Docket No. 961434-SU -- Point Water and Sewer, Inc.
Staff-assisted Rate Case Audit Report
Audit Control # 96-365-1-1

Dear Mr. Yonge:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn, Chief
Bureau of Records

KF/clc

Enclosure

cc: Public Counsel
Cox & Reynolds Law Firm